

EPIC STRATEGIC REVIEW SHAREHOLDER REPORT – MARCH 2011

Dear Shareholders,

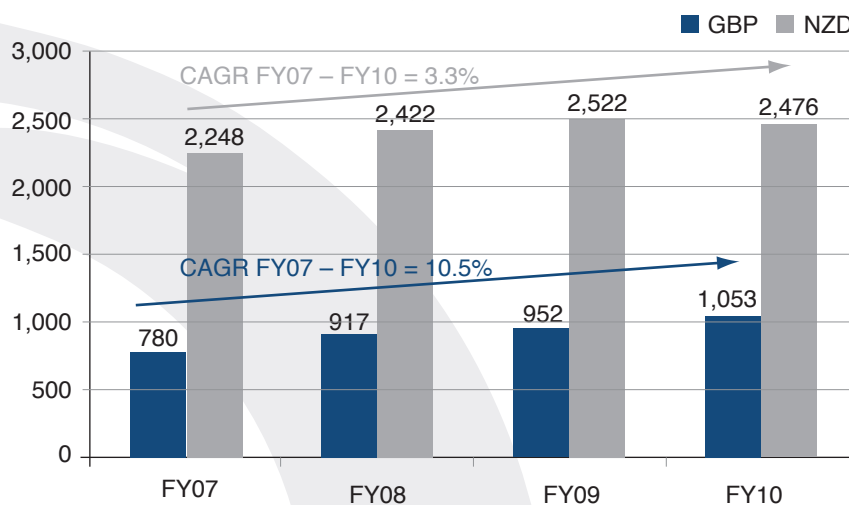
The EPIC Board is now in a position to report to shareholders on the outcome of our strategic review process following National Australia Bank (NAB) agreeing to a variation of existing facilities and with Moto about to conclude its refinancing process.

Overview

The business environment has changed considerably since EPIC's establishment four years ago. EPIC was established before the onset of the global financial crisis when the accepted level of leverage for infrastructure investments was significantly higher than it is today. While the underlying performance of businesses in infrastructure sectors, including EPIC's investments, has been robust, a far greater focus than expected has been put on reducing leverage. This means that business cashflows, normally available to shareholders such as EPIC, have instead been re-invested back into the businesses and applied to reducing debt.

Currency markets have also been volatile and the United Kingdom pound sterling has been extremely weak versus the New Zealand dollar, adversely affecting EPIC. This combination of deleveraging and currency weakness significantly reduced the cash income received from our underlying assets. Subsequently, the Board and management have been seeking a way forward which will reduce the risk of this situation arising in the future but still focuses on maximising shareholder value. Continued deleveraging at the investment and fund level are key in this regard.

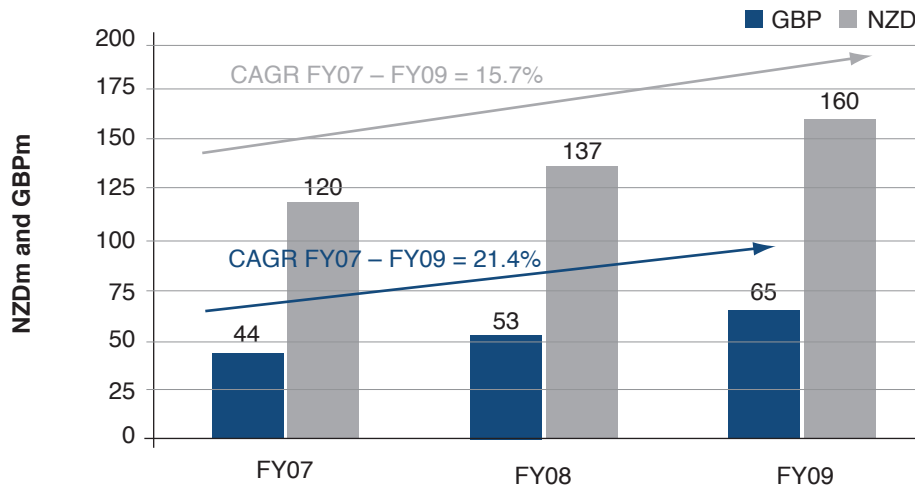
Thames – EBITDA



Source: Thames Water Utilities Limited Annual Reports

Notes: Thames has a financial year ending 31 March, the average GBP/NZD over the period has been used in translating EBITDA into New Zealand Dollars

Moto – EBITDA



Source: Moto Holdings Limited Annual Report

Notes: Moto has a financial year ending 31 December, the average GBP/NZD over the period has been used in translating EBITDA into New Zealand Dollars

At the strategic level, the Board has reaffirmed EPIC's commitment to investment in infrastructure assets. This remains an attractive asset class which delivers good returns. Our investment criteria – investing in infrastructure in OECD or OECD-like countries – remains in place. We do propose, however, adapting our focus which, until now, has been directed towards UK-based investments. While that market still holds considerable potential, similarly attractive opportunities are now emerging in the New Zealand marketplace.

The sort of opportunities we see emerging in the New Zealand market include:

- *The possible offering of stakes in smaller state-owned assets.* We will closely analyse the opportunities should the government proceed with partial sale of smaller assets which might remain unlisted, perhaps in partnership with other interests where similarities and synergies exist.
- *The growing political appetite for public private partnerships (PPPs).* Public private partnerships present attractive opportunities for specialised infrastructure investors. The Government is looking to PPPs to bring private sector capital management disciplines to finance and manage the construction of assets such as roads, prisons, schools, and hospitals. Some local authorities are also signalling an interest in involving private capital in major projects. The need to explore private sources of capital for public infrastructure has been heightened by the pressure on resources following the earthquake in Christchurch. EPIC's participation in any PPP project would require flexibility in how return is delivered, be it capital growth or yield.
- *Building relationships with privately-owned New Zealand infrastructure interests.* There are a number of privately owned medium and small infrastructure assets which see mutual benefits in partnering with EPIC to draw on our expertise and experience in the sector and capital management skills.

We will be watching developments in these sectors with interest. Bringing a New Zealand-focus to our investment strategy has certain benefits. Being closer to our assets allows for a more active management of investments. It is also our intention to give greater weight to opportunities which carry with them a level of influence, either on their own or in partnership with other like-minded shareholders, preferably accompanied by board representation.

With respect to a number of our holdings and policies, the Board has taken a number of other important decisions.

Moto recapitalisation

EPIC is participating in a recapitalisation of Moto. Moto – as part of the refinancing agreement for its growth strategy – is reducing its debt and has invited shareholders to participate in a capital injection. We have undertaken a careful analysis of Moto's prospects. While there is no expectation of a resumption of dividends, our analysis across a range of scenarios shows there is shareholder value to be generated from participating in this recapitalisation, and a shareholder cost from not participating. Participation will maintain our stake in that company at 17.49 percent, providing EPIC with continued representation on Moto's board. If we did not participate, we would see a dilution of our stake and a reduction in the eventual return to EPIC shareholders when this investment is realised. The Board's aim is that should occur by 2013–14.

As part of the Moto refinance, a number of changes have been agreed to improve governance and to better align the interests of the asset manager, Macquarie Infrastructure and Real Assets (Europe) Limited, with shareholders.

To enable EPIC's participation in the recapitalisation in Moto and to avoid dilution, Torchlight Fund No.1 LP provided \$NZ12 million as a bridge facility via the issuance by EPIC of a subordinated convertible note.

Capital management plan

Ongoing volatility in the funding markets and their reduced risk appetite have necessitated a change to our capital management plan. Key aims going forward are:

- debt reduction at fund level;
- support reduction of debt at the investment level; and
- improving fund liquidity.

The analysis undertaken during our review indicates that asset realisation(s) are the preferred route for achieving the above aims. However, this strategy is dependent on the ability to exit investments in a timely manner and for fair value.

Following this strategic review, the process will move to the 'market testing' stage for selected investments. In parallel with this process, we will also be considering back-up options for EPIC (including a possible equity raising to repay debt) should there be delays to the asset realisation process which could compromise shareholder value. It would be the Board's intention to give existing shareholders the opportunity to participate in the event an equity raising is pursued, but recognises the likelihood that additional sources of capital would be needed. A decision will be made on this following market testing.

Realisation of assets

A number of assets have been identified for potential divestment as they either do not fit with EPIC's investment strategy going forward and/or the Board believes that market conditions are timely to consider potential bids. Those we are considering for sale are:

- Thames Water.
- Arqiva, a UK broadcast and transmission service company.
- Wales West Utilities, a UK Gas network provider.

We are beginning a process aimed at selling EPIC's 2.61 percent stake in Thames Water Holding Co. This is an opportune time to consider a sale. Last year, the UK water sector commenced its new five year period following the last price setting review by its regulator, Ofwat.

Returns from the sale of EPIC's Thames Water stake, assuming it proceeds, will be used to pay down debt, and, depending on the level of capital remaining, offer a partial buyback option to shareholders wanting to exit their investment in EPIC.

EPIC's smaller holdings in Wales & West utilities and Arqiva will be sold down over time.

In relation to Thames Water, a sale would constitute a 'major transaction' and, therefore, is subject to EPIC shareholder and bank approval (among other approvals).

Improve liquidity of EPIC shares

One of the aims of the strategic review is to improve the platform for trading for EPIC shares. The existence of two markets (Macquarie and Sharemart) is providing different prices for EPIC shares, which may be disadvantaging some existing shareholders wishing to trade shares. In early December, for example, EPIC shares traded to a low of \$0.38 on Sharemart while traded at \$0.65 on the Macquarie platform. A single, more liquid market has been identified as a key step in alleviating some of these issues. Steps are being made to achieve this with a tender process to be undertaken to determine the preferred secondary market provider.

A listing of EPIC on the NZX would be another way to deliver improved liquidity to shareholders, but now is not an opportune time. A listing would require a number of approvals, including Macquarie Infrastructure Funds Management Limited.

Dividends

The decisions we have taken are intended to maximise value for shareholders, but does not include a resumption of dividends payments in the current environment where deleveraging remains a priority. As was outlined at the time of our last capital raising, EPIC's dividend policy is dependent on revenues received from our investments. With Moto's re-orientation towards reinvestment of cashflows back into the business, and further deleveraging required by its debt funders, EPIC is unlikely to have the cash income needed to resume paying EPIC dividends in the immediate future.

The Board considers it prudent to assume that no distribution will be paid to EPIC shareholders other than as a result of asset realisations. Further, consistent with a focus on value maximisation and capital management, any surplus capital would be considered for share buybacks against the investment opportunities which exist at that time.

Many of you are frustrated over the suspension of dividends and the impact this has had on the share price. Those frustrations are well understood by the Board and EPIC's management and we are improving our focus on liquidity management going forward to minimise the risk this situation arises again. Notwithstanding the above, the underlying investments in EPIC are performing well and based on our analysis, are adding to the intrinsic value of EPIC.

For those investors that wish to sell due to the suspension of dividends, we will look at share buyback options to help improve trading liquidity. This will obviously be contingent on capital availability and approvals.

EPIC banking facilities

NAB has approved an extension to a reduced working capital facility to April 2012 which will meet EPIC's forecast requirements, including removal of existing interest coverage ratio covenants.

Director

We are in the process of appointing another independent director to the Board following last year's sudden retirement of Don Walker. We will now accelerate this process following the completion of this strategic review.

EPIC management

PGC, the parent of EPIC's manager, Torchlight Investment Group, is going through its own restructure with the planned in-specie distribution of PGC's shares in BSHL and other capital management initiatives. Pending the completion of the restructure, there are no plans to change the existing external management structure of EPIC. Following the completion of that process and clarity on the value to be received by EPIC from any disposals, the position of the Manager will be reviewed, which will include the merits of internalisation and the asset and risk management resourcing required.

Indicative timetable

Following these decisions, the Board has established an indicative timetable for implementing the next steps:

1. Settlement of MOTO refinancing– by end of March.
2. Market testing stage for asset realisations - by end June. (Note: capital raising options will be pursued concurrently as a backup option.)
3. Documentation related to any transaction requiring shareholders approval will follow immediately thereafter.

Conclusion

Our review of options was undertaken with the view of maximising shareholder value. The key conclusion was that EPIC should realise one of its core investments, being either Thames Water or Moto. Having considered the current readiness of both investments for sale, timing considerations, investor appetite and market prices, it was concluded that EPIC should focus on the realisation of Thames Water over Moto.

The review process has taken some time but what was more important was that we undertook a proper, rigorous approach, working through the options, before taking the decisions which are in the best interests of shareholders in terms of maximising value.

We have invested in well-performing assets, and we will continue to do so. The outlook remains encouraging for investment companies with an infrastructure focus – overseas and in New Zealand.

Yours sincerely



Margaret Devlin
Chair, EPIC